

FDIC State Profile

Fall 2005

Hawaii

The robust pace of job growth in Hawaii may soon ease.

- Although Hawaii lost about 10,000 jobs (mainly in tourism-related sectors) during and after the 2001 recession, the state surpassed its pre-recession employment peak by third quarter 2002 (see Map 1).
- Job gains in the state government sector were key to the quick recovery. But, in recent years, tourism-related sectors, such as hospitality, retail trade, and transportation, as well as construction drove job growth.
- Annual job gains in Hawaii remained stable between the first and second quarters of 2005, but job growth still ranked seventh nationwide.
- Forecasts indicate continued softening in job growth in the state in 2006, as the market tightens further.¹
- Recent hurricanes likely will have indirect implications for the Hawaii economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have some adverse effects on consumer demand, including travel and tourism.

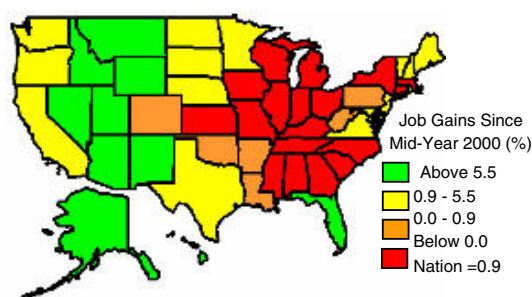
Honolulu office markets showed some deterioration.

- Honolulu hotel revenue per available room fell despite improving occupancies; while the multifamily, warehouse, and retail sectors all reported improved occupancy and rent levels in mid-2005. However, the office sector showed slight but wide-based deterioration.²
- Office vacancy rates rose for Class "A" and "B/C" properties in both suburban and downtown office properties. However, rents improved in the "B/C" office segment during the first half of 2005 (see Chart 1).³

Accelerating Hawaii home prices pressured affordability.

- Second quarter home prices jumped almost 26 percent on an annual basis in Hawaii and in Honolulu, twice the

Map 1: Despite a Sharp Decline in 2001, Hawaii Has Now Surpassed Its Pre-Recession Job Count

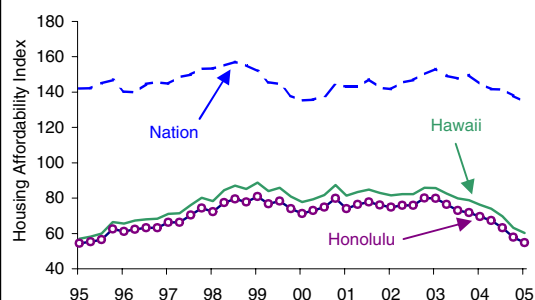


Source: Bureau of Labor Statistics (data as of second quarter 2005)

Chart 1: Honolulu Office Vacancies Increased, and Only "B/C" Rents Rose



Chart 2: Home Affordability in Hawaii Declined and Remained Well Below the Nation



¹Forecast according to Economy.com.

²According to office data from Property & Portfolio Research and Torto Wheaton Research.

³Class "A" properties are generally newer with better quality construction and location.

national rate.⁴ As a result, second quarter housing affordability fell to near 10-year lows (see Chart 2).⁵

- In first half 2005, investor participation was strong and innovative mortgage products increased, even among non-prime borrowers. For example, over 47 percent of Alt-A (low documentation) Hawaii mortgages were to investors or second home purchasers compared to 24 percent for the nation. However, innovative (option ARM and interest only) mortgages accounted for 31 percent of subprime and Alt-A mortgages in Hawaii compared to 42 percent for the nation.⁶
- Home price trends are important to Hawaii-based institutions where construction loan growth has accelerated and residential mortgage exposures are high.

Bankruptcy filings are on the radar.

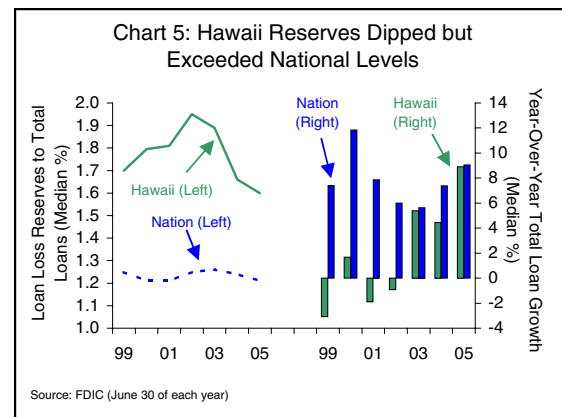
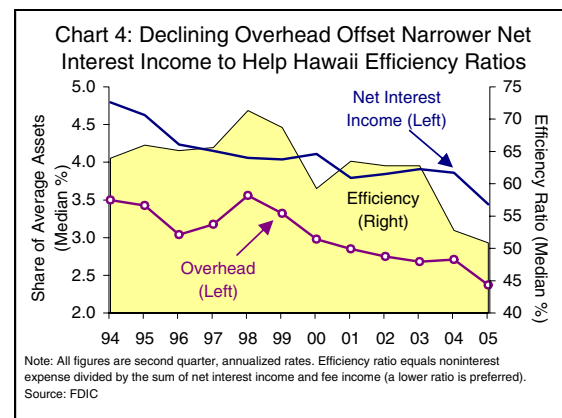
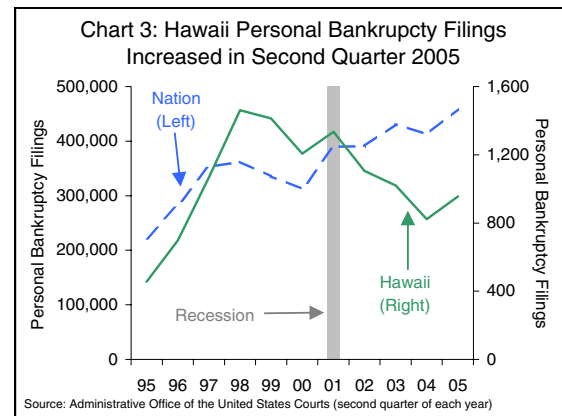
- Second quarter personal bankruptcy filings in Hawaii spiked 16 percent year-over-year because of pending bankruptcy law changes. However, filings remained lower than the nation on a per capita basis and well below pre-recession levels (see Chart 3).
- Consumer loan delinquencies at Hawaii institutions were at historical lows. However, should interest rates rise or energy prices remain elevated, institutions could experience an uptick in consumer loan delinquencies.

Insured institution profits declined but remained strong.

- Second quarter median pre-tax earnings for Hawaii based insured institutions declined as margins narrowed, fee income dropped, and gains on loan and security sales shrank. However, median performance still ranked sixth highest in the nation.
- Profit trends varied by charter. A flatter yield curve, high mortgage-related asset exposures, and elevated noncore funds dependence weighed on thrift earnings, while commercial banks reported widened margins and strengthening pre-tax returns on assets.
- Efficiency ratios (the share of net operating revenues absorbed by overhead expenses) ranked best in the nation and improved year-over-year because of overhead declines (see Chart 4).⁷ The large asset base and branch network of most Hawaii institutions fostered economies of scale in spite of the state's high cost of doing business.

Delinquencies were at record lows.

- Hawaii-based insured institutions reported one of the lowest levels of past-due loans on record during the second quarter of 2005, and delinquencies were third lowest in the nation. A second quarter increase in charge-offs, primarily in consumer loan portfolios, contributed to the lower past-due levels.
- Loan loss reserves in relation to total loans significantly exceeded national levels despite resurgent loan growth, low year-to-date provision expenses, and an increase in loan charge-offs (see Chart 5).



⁴According to Office of Federal Housing Enterprise Oversight data.

⁵According to Economy.com and National Association of Realtors.

⁶Based on LoanPerformance data.

⁷The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income.

Hawaii at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.9%	2.9%	2.5%	2.6%	1.9%
Manufacturing (3%)	0.0%	1.1%	3.1%	2.8%	-1.4%
Other (non-manufacturing) Goods-Producing (5%)	10.7%	10.3%	4.2%	4.9%	7.5%
Private Service-Producing (72%)	3.3%	3.5%	2.9%	2.9%	2.0%
Government (20%)	-0.2%	-0.7%	0.9%	0.8%	1.0%
Unemployment Rate (% of labor force)	2.8	2.9	3.3	3.3	3.9

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	8.2%	8.3%	10.2%	8.0%	4.8%
Single-Family Home Permits	7.2%	38.2%	41.2%	12.8%	14.4%
Multifamily Building Permits	-1.1%	-76.5%	144.2%	198.8%	-16.2%
Existing Home Sales	7.6%	14.7%	6.6%	3.2%	22.4%
Home Price Index	25.9%	24.6%	19.8%	22.8%	11.0%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.03	2.46	2.65	2.47	2.96

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	7	7	8	8	8
Total Assets (in millions)	35,090	34,560	32,781	34,175	31,928
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.34	0.61	0.78	0.57	0.86
ALLL/Total Loans (median %)	1.60	1.58	1.66	1.63	1.86
ALLL/Noncurrent Loans (median multiple)	7.72	9.67	5.79	6.29	4.65
Net Loan Losses / Total Loans (median %)	0.12	-0.02	0.06	0.05	0.08

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	7.89	7.47	8.08	7.34	8.21
Return on Assets (median %)	1.18	1.22	1.29	1.29	1.48
Pretax Return on Assets (median %)	1.91	1.96	2.23	1.96	2.32
Net Interest Margin (median %)	4.29	4.18	4.26	4.24	4.50
Yield on Earning Assets (median %)	5.55	5.40	5.11	5.16	5.51
Cost of Funding Earning Assets (median %)	1.34	1.18	1.08	0.84	1.24
Provisions to Avg. Assets (median %)	0.00	0.00	0.00	0.01	0.04
Noninterest Income to Avg. Assets (median %)	0.76	0.77	0.98	0.77	1.01
Overhead to Avg. Assets (median %)	2.37	2.47	2.71	2.54	2.82

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	54.1	51.3	58.2	56.4	62.7
Noncore Funding to Assets (median %)	26.9	25.8	26.7	26.5	22.1
Long-term Assets to Assets (median %, call filers)	21.0	21.1	22.0	19.9	27.6
Brokered Deposits (number of institutions)	4	4	4	3	3
Brokered Deposits to Assets (median % for those above)	0.4	0.1	0.1	0.1	0.0

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	113.9	109.2	110.4	110.8	116.0
Commercial Real Estate	124.4	122.0	217.1	224.0	195.5
<i>Construction & Development</i>	25.1	22.3	28.2	36.6	26.0
<i>Multifamily Residential Real Estate</i>	13.4	7.1	7.8	9.5	9.4
<i>Nonresidential Real Estate</i>	85.9	86.1	118.4	118.7	116.9
Residential Real Estate	191.4	209.7	228.2	252.2	293.0
Consumer	19.4	20.1	30.4	33.6	31.0
Agriculture	0.4	0.6	0.7	0.7	0.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Honolulu, HI	10	18,402	< \$250 million	0 (0%)
			\$250 million to \$1 billion	2 (28.6%)
			\$1 billion to \$10 billion	3 (42.9%)
			> \$10 billion	2 (28.6%)